

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Otto Township</b>	County <b>Oceana</b>
Audit Date <b>3/31/05</b>	Opinion Date <b>7/19/05</b>	Date Accountant Report Submitted to State: <b>8/12/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

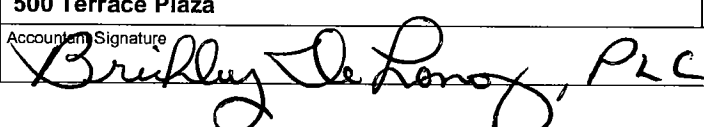
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Brickley DeLong PLC</b>			
Street Address <b>500 Terrace Plaza</b>		City <b>Muskegon</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49443</b>	Date <b>8/12/05</b>

Otto Township  
Oceana County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended March 31, 2005

Otto Township  
**LIST OF ELECTED**  
March 31, 2005

**ELECTED OFFICIALS**

Supervisor..... Ronald Wedeven

Clerk..... Carol Keck

Treasurer..... Lillian Carson

Trustees ..... Patricia Budde  
Mary Justian

Otto Township

**TABLE OF CONTENTS**

Management’s Discussion and Analysis.....	i - vi
Independent Auditors’ Report.....	1
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets.....	2
Statement of Activities .....	3
Fund Financial Statements	
Balance Sheet—Governmental Funds .....	4
Reconciliation of the Balance Sheet of Governmental	
Funds to the Statement of Net Assets .....	5
Statement of Revenues, Expenditures and Changes	
in Fund Balances —Governmental Funds .....	6
Statement of Fiduciary Net Assets .....	7
Statement of Changes in Fiduciary Net Assets .....	8
Notes to Financial Statements .....	9
Required Supplemental Information	
Budgetary Comparison Schedule—General Fund .....	17
Budgetary Comparison Schedule—Township Improvement Fund.....	18

As management of Otto Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of Otto Township for the fiscal year ended March 31, 2005. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter. To those familiar with the prior year financial statements or just new to this document, it is important to know that the Township is presenting this analysis along with these statements in a new format prescribed by the provisions of the Governmental Accounting Standards Board Statement 34 (GASB 34).

### **FINANCIAL HIGHLIGHTS**

The General Fund fund balance increased \$27,669.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. Otto Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **Government-wide Financial Statements**

The governmental-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Otto Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into two categories—governmental funds and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

Otto Township maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Township Improvement Fund, which are considered major funds. Data from the other fund is presented as an other governmental fund.

**Fiduciary Funds.** Fiduciary Funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the government-wide financial statements.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual revenues and expenditures for the General Fund and the Township Improvement Fund.

**Government-wide Financial Analysis**

The first table presented below is a summary of the government-wide statement of net assets for Otto Township. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2005, the Township's net assets from governmental activities totaled \$163,475. Since this is the first year the Township has prepared financial statements following GASB 34, comparisons to fiscal year 2004 are not available. However, these comparison schedules will be provided in future years.

In examining the composition of these net assets, the reader should note that a portion of governmental activities net assets are invested in capital assets (i.e., buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. Certain other governmental net assets are shown as restricted, meaning that they are subject to external restrictions on how they may be used. The unrestricted net assets for governmental-type activities actually depict a balance of \$136,146. This represents the amount of discretionary resources that can be used for general governmental operations.

**Otto Township Net Assets**

	Governmental Activities 2005
<u>Assets</u>	
Current assets and other assets	\$ 165,922
Capital assets	745
Total assets	<u>166,667</u>
<u>Liabilities</u>	
Current liabilities	<u>3,192</u>
<u>Net assets</u>	
Invested in capital assets	745
Restricted	26,584
Unrestricted	136,146
Total net assets	<u>\$ 163,475</u>

**Governmental Activities**

Governmental activities increased by \$28,028 during the 2005 fiscal year. With all of the Township's governmental operations combined, the net result was that its operating revenues exceeded its operating expenditures, producing the resulting net assets. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

**Otto Township Change in Net Assets**

	Governmental Activities 2005
<b>Revenues:</b>	
Program revenues	
Charge for services	\$ 1,405
General revenues	
Property taxes	52,827
Grants and contributions not restricted	51,962
Unrestricted investment earning	1,096
Miscellaneous	1,676
<b>Total revenues</b>	<u>108,966</u>
<b>Expenses:</b>	
General government	54,878
Public safety	7,225
Public works	7,350
Community and economic development	10,685
Culture and recreation	800
<b>Total expenses</b>	<u>80,938</u>
Increase in net assets	28,028
Net assets - April 1, 2004	135,447
<b>Net assets - March 31, 2005</b>	<u><u>\$ 163,475</u></u>



### Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, Otto Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of Otto Township governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2005 fiscal year, Otto Township governmental funds reported a combined unreserved fund balance of \$136,146. This number represents the unreserved fund balance of \$114,689 in the General Fund and \$21,457 in the Township Improvement Fund. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Township's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been reserved for perpetual care of \$10,319, fire protection of \$7,471, and roads of \$8,794. When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$162,730, which consists of a fund balance of \$130,954 in the General Fund plus the fund balance of \$31,776 in other governmental funds.

The General Fund is the chief operating fund of Otto Township. At the end of the fiscal year 2005, the total General Fund fund balance was \$130,954 with \$114,689 shown as unreserved and \$16,265 shown as reserved.

The other major fund is the Township Improvement Fund. This fund had no expenditures during the year and the only revenue was investment earnings.

### General Fund Budget

During the current fiscal year, the Township made several amendments to its original budget. The most significant of those is listed below:

- The property tax revenue budget increased from \$20,914 to \$30,912 because the original budget did not include the fire tax levy.
- Legislative expenditures increased \$2,405 to a total of \$12,035 due to an increase in special meetings and related board costs and due to unanticipated pension settlements for terminated employees.
- The elections budget was amended from \$1,200 to \$3,681 due to ordering voting supplies and hiring more election workers than originally planned.
- The cemetery budget was reduced to \$3,293 because there were fewer burials than in the prior year and the original budget was planned based on the prior year.
- The fire protection budget was dropped from \$15,700 to \$8,100 due to the fact that there were significantly fewer fires than anticipated.

The only major variation from the final budget to actual was the property tax budget which did not include the new road millage of 1 mill.

**Capital Assets.**

Otto Township investment in capital assets for its governmental activities as of March 31, 2005 totaled \$745 (net of accumulated depreciation). This investment in capital assets includes land and buildings.

There were no capital asset additions or disposals in 2005. All depreciable assets were fully depreciated at April 1, 2004 and therefore there was no depreciation expense in 2005.

**Otto Township Capital Assets**

	Governmental Activities 2005
Land	\$ 745
Buildings and improvements	1,865
Total capital assets	2,610
Less:	
Accumulated depreciation	1,865
Total (net of accumulated depreciation)	\$ 745

Additional information on the Township's capital assets can be found in Note D of the "Notes to the Financial Statements" of this report.

**General Economic Overview**

Otto Township has set fiscal accountability and financial stability as its number one priority. This is also its greatest challenge.

The Township's General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised over 93% of the General Fund's revenue sources. In fiscal 2006, state revenue sharing is expected to decline slightly. Property tax revenues should increase by the rate of inflation.

The Township expects General Fund expenditures in 2006 to remain consistent with the 2005 expenditures. The Board does not plan to have any major capital outlays or other significant unusual transactions and expects an increase in fund balance in the General Fund to be similar to the increase in 2005.

**Requests for Information**

This financial report is designed to provide a general overview of Otto Township's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Otto Township, 5458 128th Avenue, Rothbury, Michigan 49452 (231) 861-7098.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

July 19, 2005

Township Board  
Otto Township  
Rothbury, Michigan

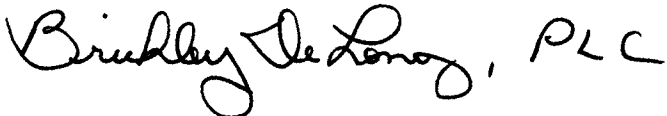
We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of Otto Township as of and for the year ended March 31, 2005, which collectively comprise the Township's financial statements as listed in the table of contents. These financial statements are the responsibility of Otto Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of Otto Township, as of March 31, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, Otto Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of March 31, 2005.

The management's discussion and analysis and budgetary comparison information on pages i through vi and 17 and 18 are not a required part of the basic financial statement but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.



Otto Township  
**STATEMENT OF NET ASSETS**  
March 31, 2005

ASSETS

	<u>Governmental activities</u>
CURRENT ASSETS	
Cash and investments	\$ 149,170
Taxes receivable	9,614
Due from other governmental units	<u>7,138</u>
Total current assets	165,922
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	<u>745</u>
Total assets	166,667
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	<u>3,192</u>
NET ASSETS	
Invested in capital assets	745
Restricted for:	
Fire protection	7,471
Roads	8,794
Perpetual care - nonexpendable	10,319
Unrestricted	<u>136,146</u>
Total net assets	<u><u>\$ 163,475</u></u>

The accompanying notes are an integral part of this statement.

Otto Township  
**STATEMENT OF ACTIVITIES**  
For the year ended March 31, 2005

		Program Revenue	Net (Expense) Revenue and Changes
	Expenses	Charges for services	in Net Assets
<i><b>Functions/Programs</b></i>			Governmental activities
Governmental activities			
General government	\$ 54,878	\$ -	\$ (54,878)
Public safety	7,225	-	(7,225)
Public works	7,350	-	(7,350)
Community and economic development	10,685	1,405	(9,280)
Culture and recreation	800	-	(800)
Total governmental activities	<u>\$ 80,938</u>	<u>\$ 1,405</u>	<u>(79,533)</u>
General revenues			
Property taxes			52,827
Grants and contributions not restricted to specific programs			51,962
Unrestricted investment earnings			1,096
Miscellaneous			<u>1,676</u>
Total general revenues			<u>107,561</u>
Change in net assets			28,028
Net assets at April 1, 2004			<u>135,447</u>
Net assets at March 31, 2005			<u><u>\$ 163,475</u></u>

The accompanying notes are an integral part of this statement.

Otto Township  
**BALANCE SHEET**  
 Governmental Funds  
 March 31, 2005

	General Fund	Township Improvement Fund	Other governmental fund	Total governmental funds
ASSETS				
Cash and investments	\$ 117,394	\$ 21,457	\$ 10,319	\$ 149,170
Taxes receivable	9,614	-	-	9,614
Due from other governmental units	7,138	-	-	7,138
Total assets	<u>\$ 134,146</u>	<u>\$ 21,457</u>	<u>\$ 10,319</u>	<u>\$ 165,922</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 743	\$ -	\$ -	\$ 743
Accrued liabilities	2,449	-	-	2,449
Total liabilities	3,192	-	-	3,192
Fund balances				
Reserved for:				
Fire protection	7,471	-	-	7,471
Roads	8,794	-	-	8,794
Perpetual care	-	-	10,319	10,319
Unreserved				
General Fund	114,689	-	-	114,689
Special revenue funds	-	21,457	-	21,457
Total fund balances	<u>130,954</u>	<u>21,457</u>	<u>10,319</u>	<u>162,730</u>
Total liabilities and fund balances	<u>\$ 134,146</u>	<u>\$ 21,457</u>	<u>\$ 10,319</u>	<u>\$ 165,922</u>

The accompanying notes are an integral part of this statement.

Otto Township  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**  
March 31, 2005

Total fund balance—governmental funds		\$ 162,730
---------------------------------------	--	------------

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 2,610	
Accumulated depreciation	<u>(1,865)</u>	<u>745</u>

Net assets of governmental activities in the Statement of Net Assets		\$ <u><u>163,475</u></u>
--	--	--------------------------

The accompanying notes are an integral part of this statement.

Otto Township  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended March 31, 2005

	General Fund	Township Improvement Fund	Other governmental fund	Total governmental funds
REVENUES				
Property taxes	\$ 52,827	\$ -	\$ -	\$ 52,827
Licenses and permits	672	-	-	672
Intergovernmental revenues				
Federal	1,712	-	-	1,712
State	48,355	-	-	48,355
Charges for services	1,995	-	-	1,995
Investment earnings	737	216	143	1,096
Other	2,309	-	-	2,309
	<u>108,607</u>	<u>216</u>	<u>143</u>	<u>108,966</u>
Total revenues				
	108,607	216	143	108,966
EXPENDITURES				
Current				
General government	54,878	-	-	54,878
Public safety	7,225	-	-	7,225
Public works	7,350	-	-	7,350
Community and economic development	10,685	-	-	10,685
Culture and recreation	800	-	-	800
	<u>80,938</u>	<u>-</u>	<u>-</u>	<u>80,938</u>
Total expenditures				
	80,938	-	-	80,938
Net change in fund balances	27,669	216	143	28,028
Fund balances at April 1, 2004	<u>103,285</u>	<u>21,241</u>	<u>10,176</u>	<u>134,702</u>
Fund balances at March 31, 2005	\$ <u><u>130,954</u></u>	\$ <u><u>21,457</u></u>	\$ <u><u>10,319</u></u>	\$ <u><u>162,730</u></u>

The accompanying notes are an integral part of this statement.



Otto Township  
**STATEMENT OF FIDUCIARY NET ASSETS**  
Fiduciary Funds  
March 31, 2005

	<u>Employee Benefit Plan</u>	<u>Agency Fund</u>
<b>ASSETS</b>		
Cash and investments	\$ <u>5,475</u>	\$ <u>9,509</u>
 <b>LIABILITIES</b>		
Due to other governmental units	\$ <u>-</u>	\$ <u>9,509</u>
 <b>NET ASSETS</b>		
Held in trust for benefits and other purposes	\$ <u>5,475</u>	

The accompanying notes are an integral part of this statement.

Otto Township  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
Employee Benefit Plan  
For the year ended March 31, 2005

**ADDITIONS**

Employer contributions	\$ 2,367
Investment earnings	<u>472</u>
Total additions	2,839

**DEDUCTIONS**

Benefits	<u>1,458</u>
----------	--------------

Change in net assets	1,381
----------------------	-------

Net assets at April 1, 2004	<u>4,094</u>
-----------------------------	--------------

Net assets at March 31, 2005	<u><u>\$ 5,475</u></u>
------------------------------	------------------------

The accompanying notes are an integral part of this statement.

Otto Township  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Otto Township (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Effective April 1, 2004, the Township adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the Township's activities.
- A change in the fund financial statements to focus on the major funds.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 are as follows:

Fund balances at April 1, 2004—governmental funds	\$ 134,702
Capital assets, net	<u>745</u>
Restated net assets at April 1, 2004	<u>\$ 135,447</u>

**1. Reporting Entity**

Otto Township (Township) is a common law township governed by an elected five-member board.

Generally accepted accounting principles require that if the Township has certain oversight responsibilities over other organizations, those organizations should be included in the Township's financial statements. Since no organizations met this criteria, none are included in the financial statements.

**2. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Township has no business-type activities.

Otto Township  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**2. Government-Wide and Fund Financial Statements—Continued**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Township does not allocate indirect costs.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Township Improvement Fund is used to hold funds for the Township's future capital improvements.

The Township only has one other governmental fund, the Cemetery Perpetual Care Fund.

Otto Township  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued**

Additionally, the Township reports the following fund types:

The Pension Trust Fund accounts for the activities of the Township's employee's retirement plan, which accumulates resources for pension benefit payments.

The Agency Fund accounts for all assets held by the Township on behalf of others in a fiduciary capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

**4. Assets, Liabilities and Net Assets or Equity**

**a. Deposits and Investments**

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, banker's acceptances, state-approved investment pools and certain mutual funds.

All investments are stated at fair value.

**b. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Otto Township  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**b. Receivables and Payables—Continued**

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. The Township recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 state taxable value for real/personal property of the Township totaled approximately \$16,768,000. The ad valorem taxes levied consisted of 1.11 mills for the Township's operating purposes, .9046 mills for fire services and 1 mill for roads. These amounts are recognized in the General Fund.

**c. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	5-40
Land improvements	5
Equipment	5

**d. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**e. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Otto Township  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2005

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The Township follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first week of March, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
- c. Not later than the last week in March, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Township Board. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The Township's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level. The Township Board made several supplemental budgetary appropriations throughout the year.

**NOTE C—DEPOSITS AND INVESTMENTS**

**1. Deposits**

The Township's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions' trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of March 31, 2005, the Township's carrying amount of deposits was \$148,360, and the bank balance was \$153,099. Of the bank balance, \$122,244 was covered by federal depository insurance. The remaining \$30,855 was uninsured and uncollateralized.

Otto Township  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2005

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**2. Investments**

As of March 31, 2005, the Township's investments represented holdings in investment pools and mutual funds. During the year ended March 31, 2005, the Township's investments were only in these types of investments.

The Township's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered, or the securities held by the Township or its agent in the Township's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Township's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Township's name. The state-approved investment pools are not categorized as they are synonymous with mutual funds. As of March 31, 2005, the Township's fair value in those pools and mutual funds were \$15,794.

The composition of pension trust fund investments at fair value is included in the previous paragraph and shown in the following table:

Guaranteed income funds	\$ <u>5,475</u>
-------------------------	-----------------

Below is a summary of the combined balance sheet deposits and investments:

	<u>Governmental activities</u>	<u>Fiduciary funds</u>	<u>Total</u>
Cash and investments	\$ <u>149,170</u>	\$ <u>14,984</u>	\$ <u>164,154</u>

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2005 was as follows:

	<u>Balance April 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2005</u>
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 745	\$ -	\$ -	\$ 745
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	1,865	-	-	1,865
<b>Less accumulated depreciation:</b>				
Buildings and improvements	<u>1,865</u>	<u>-</u>	<u>-</u>	<u>1,865</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$ 745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 745</u>

**Government activities:**

There was no depreciation expense for the year March 31, 2005.



Otto Township  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2005

**NOTE E—OTHER INFORMATION**

**1. Risk Management**

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

**2. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

**NOTE F—PENSION PLANS**

The Township provides pension benefits for all of its Board members and full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Plan is administered through Traveler's Life and Annuity, an independent third party. The Township is required to contribute an amount equal to 10 percent of the qualified employees' annual compensation each plan year. For the year ended March 31, 2005, pension expense was \$2,367.

**NOTE G—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent approximately 44 percent of General Fund revenues.

## **REQUIRED SUPPLEMENTAL INFORMATION**

Otto Township  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
General Fund  
For the year ended March 31, 2005

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 20,914	\$ 30,912	\$ 52,827	\$ 21,915
Licenses and permits	861	900	672	(228)
Intergovernmental revenues				
Federal	48	71	1,712	1,641
State	50,518	49,203	48,355	(848)
Charges for services	1,700	1,200	1,995	795
Investment earnings	1,019	800	737	(63)
Other	6,107	2,577	2,309	(268)
Total revenues	81,167	85,663	108,607	22,944
EXPENDITURES				
Current				
General government				
Legislative	\$ 9,630	\$ 12,035	\$ 11,242	\$ 793
Supervisor	6,070	6,035	6,072	(37)
Elections	1,200	3,681	2,870	811
Board of review	2,365	1,255	766	489
Clerk	5,600	5,895	5,602	293
Treasurer	8,200	7,625	7,303	322
Assessor	9,950	10,236	10,522	(286)
Township hall	6,698	7,266	6,967	299
Cemetery	5,441	3,293	3,534	(241)
Public safety				
Fire protection	15,700	8,100	7,225	875
Public works				
Roads	6,700	7,351	7,350	1
Community and economic development				
Zoning	13,727	11,961	10,685	1,276
Culture and recreation				
Parks	100	-	-	-
Library	800	800	800	-
Total expenditures	92,181	85,533	80,938	4,595
Net change in fund balance	\$ (11,014)	\$ 130	27,669	\$ 27,539
Fund balance at April 1, 2004			103,285	
Fund balance at March 31, 2005			\$ 130,954	

Otto Township  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
Township Improvement Fund  
For the year ended March 31, 2005

	Budgeted amounts			Variance with final budget- positive (negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u></u>
REVENUES				
Investment earnings	\$ -	\$ -	\$ 216	\$ 216
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	\$ <u>-</u>	\$ <u>-</u>	216	\$ <u>216</u>
Fund balance at April 1, 2004			<u>21,241</u>	
Fund balance at March 31, 2005			\$ <u>21,457</u>	

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

July 19, 2005

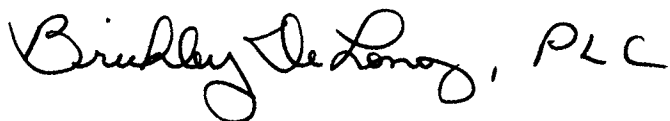
Township Board  
Otto Township  
Rothbury, Michigan

In planning and performing our audit of the financial statements of Otto Township for the year ended March 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Otto Township's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of the reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions described above are not believed to be material weaknesses.

This report is intended for the information of the Township Board, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

## **PRIOR YEAR REPORTABLE CONDITIONS STILL APPLICABLE**

We consider the following reportable conditions contained in our September 21, 2004 letter as still applicable:

Recommendation 1: The clerk should maintain a complete and fully-adjusted trial balance.

Recommendation 2: Bank statements should be reconciled to the Township clerk's records.

Recommendation 3: The internal control procedures should be further segregated.